



Issue Date May 30, 2006
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Audit Report Number 2006-KC-1010
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TO: Debra L. Lingwall, Coordinator, Public Housing Program Center, 7DPHO

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FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: The Omaha Housing Authority Did Not Follow Required Procurement Procedures

## **HIGHLIGHTS**

### **What We Audited and Why**

We audited the Omaha Housing Authority (Authority) in Omaha, Nebraska, due to our risk assessment of the larger housing authorities in Region VII and in response to several citizen complaints.

Our objectives were to determine whether the Authority followed the U.S. Department of Housing and Urban Development's (HUD) and its own procurement requirements.

This is the third report resulting from our audit of the Authority.

### **What We Found**

The Authority did not follow required procurement procedures because its management was not effectively involved in the process. It used \$5,419 in HUD funds to purchase ineligible goods and services, and it could have saved at least \$970,000 when it purchased \$1.9 million in other goods and services.

## **What We Recommend**

We recommend that HUD require the Authority to repay its low rent program for the ineligible purchases and improve controls over its procurement process.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

## **Auditee's Response**

We provided the draft audit report to the Authority on April 4, 2006 and received its written response on April 26, 2006. The Authority agreed with the finding and recommendations.

The auditee's response, along with our evaluation of that response, can be found in appendix B of this report. We also reviewed the attachments provided by the auditee but did not include them in this report.

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## **BACKGROUND AND OBJECTIVES**

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The Omaha Housing Authority (Authority) began operations in 1935. The Authority receives funding for its rental assistance programs from the U.S. Department of Housing and Urban Development (HUD), tenant rents collected, and the City of Omaha. The rental assistance programs include HUD's public housing program and the Section 8 Housing Choice Voucher program. The Authority also receives funding for other housing programs through federal, private, and contractual agreements.

A five-member board of commissioners governs the Authority. An executive director manages its day-to-day operations. The Authority's administrative office is located at 540 South 27th Street, Omaha, Nebraska. Its public housing/Section 8 Housing Choice Voucher program office is located at 3003 Emmett Street, Omaha, Nebraska.

From January 1, 2003, through August 31, 2005, the Authority awarded 132 contracts worth more than \$17 million.

In 1999, the Office of Inspector General (OIG) conducted an audit of the Authority and identified issues similar to those contained in this report (see Followup on Prior Audits).

The objectives of our audit were to determine whether the Authority followed HUD's and its own procurement requirements.

## RESULTS OF AUDIT

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### Finding: The Authority Did Not Follow HUD's or Its Own Requirements in Procuring \$1.9 Million in Goods and Services

The Authority did not follow HUD's or its own requirements in procuring \$1.9 million in goods and services. The Authority's management was not effectively involved in the procurement process. As a result, the Authority expended \$5,419 for ineligible goods and services and could have saved at least \$970,000 when purchasing \$1.9 million in eligible goods and services.

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The Authority's staff used purchase orders instead of contracts and awarded contracts without the knowledge of the procurement department.

#### Small Purchase Orders Used Extensively

The Authority's staff improperly used the small purchase method to pay for more than \$1.2 million in goods and services. The Authority's small purchase policy allows the staff to buy between \$1,000 and \$10,000 in goods and services using purchase orders without open competition as long as they get three bids. However, the policy prohibits splitting purchases to avoid more complicated contracting rules for purchases over \$10,000.

The following table identifies the amounts of small purchases that totaled more than \$10,000 per type of service each year. These purchases should have been opened to competition and contracted out to obtain the best price.

Goods and services	Amount	Number of purchase orders	Number of vendors
Miscellaneous	\$565,722	409	8
Plumbing	\$358,138	403	5
Cleaning	\$332,789	471	4
<b>Totals</b>	<b>\$1,256,649</b>	<b>1,283</b>	<b>17</b>

For example, the Authority issued 403 small purchase orders to five vendors totaling \$358,138 in plumbing services. One vendor billed the Authority for

\$309,693 or 86 percent of the total amount. The Authority should have consolidated these purchases to obtain the best price.

The Authority also did not always obtain three quotes for purchase orders over \$1,000 but not exceeding \$10,000. For example, the human resources manager purchased two laptop computers for \$4,601 without the three required bid quotes.

### Contract Awarded by Unauthorized Personnel

Unauthorized staff awarded contracts totaling \$654,311 to vendors. The Authority's procurement policy requires that all procurement transactions be administered by the executive director or authorized contracting officers.

Although not an authorized contracting officer, the human resources manager signed contracts for \$433,254 in temporary staffing services and \$103,899 for cellular telephone services without requests for proposals or invitations for bid. In addition, unauthorized personnel in the legal department procured \$31,627 in legal service contracts with five law firms in March 2004 and paid \$85,531 for legal services to a single law firm without competition.

### Summary of Improper Procurements

Goods and services	Amount	Deficiencies
Ineligible goods	\$5,419	Ineligible items
Miscellaneous	\$565,722	Purchase orders used instead of contracts
Plumbing	\$358,138	
Cleaning	\$332,789	
Computers	\$4,601	Requirements for bid quotes not met
Temporary agencies	\$433,254	Contracts awarded by unauthorized personnel
Cellular telephones	\$103,899	
Legal	\$117,158	
<b>Total</b>	<b>\$1,920,980</b>	

### **Authority Management Not Effectively Involved in the Procurement Process**

The Authority's management did not emphasize the importance of the procurement process. It did not

- Ensure that staff followed HUD requirements.
- Establish a quality control process to ensure that staff followed procurement policies and procedures.
- Ensure that only authorized staff procured goods and services.
- Have a written credit card policy.
- Ensure that staff received adequate training.
- Appoint a procurement manager until April 2005.

From February 21, 2004, through March 2005, the Authority did not assign a manager to oversee the procurement process.

### **Ineligible Items Purchased and Could Have Saved \$970,000**

Authority staff expended \$5,419 for ineligible goods and services. The human resources manager improperly used an Authority travel credit card to purchase \$5,419 in ineligible items. The items included Internet services, Halloween items, a football banquet, and cheerleading uniforms. These items are not eligible according to HUD's or the Authority's requirements.

The Authority could have saved at least \$970,000 on the purchases identified in this report. This estimate is based on the Authority's actual savings achieved from contracting out plumbing and cellular telephone services (see conclusion below) and projecting similar savings to the other identified goods and services.

### **Conclusion**

The \$975,419 in ineligible costs and potential savings could have been used to further assist the tenants and the Authority's rental programs.

The Authority did not have adequate management involvement over its procurement function. As a result, staff expended funds for ineligible goods and services. The Authority also wasted money because it did not have an effective procurement process.

During the audit, the Authority began to improve its procurement process. The new procurement manager completed contracts for plumbing and cellular telephone services. The Authority will save more than \$250,000 over the next year by using these contracts. The manager is issuing contracts for other routine services as well. The manager estimated that by following all appropriate procurement rules, the Authority would save more than \$1 million over the next year.

## **Recommendations**

We recommend that the coordinator of the Public Housing Program Center require the Authority to

- 1A. Repay the Authority's low rent programs for the ineligible costs of \$5,419.
- 1B. Develop and maintain a quality control process to monitor procurements to ensure that it gets the most economical prices available, resulting in savings of \$970,000.
- 1C. Establish a credit card policy.
- 1D. Provide additional training to procurement personnel.

## SCOPE AND METHODOLOGY

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To accomplish our audit objectives, we reviewed applicable HUD and Authority criteria. We interviewed Authority staff and reviewed Authority contracts. In addition, we reviewed vendor files, bank/credit card statements, check registers, purchase orders, vendor ledgers, and other related documentation.

We selected a sample of vendors to review based on high dollar payments. The selected sample was not intended to be representative of the universe of vendors. The sample allowed us to focus our review efforts on the vendors that posed an inherent risk and/or risk of noncompliance with HUD's and the Authority's procurement policies. We elected not to use a 100 percent selection as the number of vendors doing business with the Authority precluded the examination of each transaction.

We identified and selected for review most of the vendors with high dollar payments in excess of \$5,000. We looked at the number of purchase orders issued to determine whether the Authority should contract for these services. We selected all purchase orders over \$1,000 of the vendors selected to determine whether the Authority received three bids/quotes.

We relied on computer-processed data obtained from the Authority for our audit. The data included check registers and vendor ledgers. We evaluated the reliability of the data and concluded the data were sufficiently reliable for use in meeting our objectives.

We estimated the potential savings by using the actual savings received from contracting out for plumbing services and cellular telephones. We used the percentage of savings and projected similar savings to the amount for other goods and services identified in the report. We validated our estimate by comparing it to the Authority's estimate of future savings.

Our review period was January 1, 2003, through August 31, 2005. We conducted our audit work from September through October 2005 at the Authority's administrative office in Omaha, Nebraska.

We performed our review in accordance with generally accepted government auditing standards.

# INTERNAL CONTROLS

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Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Internal Controls

We determined the following internal controls were relevant to our audit objectives:

- Management controls over procurement;
- Safeguards over assets and records and compliance with applicable laws, regulations, and contractual agreements; and
- Annual planning and reviewing of contract needs.

We assessed the relevant controls identified above.

A significant weakness exists if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet the organization's objectives.

## Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- The Authority did not emphasize the importance of the procurement process.
- The Authority did not establish a quality control process to ensure staff followed procurement policies/procedures.
- The Authority did not have a written credit card policy (see finding).

## **FOLLOWUP ON PRIOR AUDITS**

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### **Audit Report #00-KC-201-1001**

We audited the Authority in 1999. The audit covered the period from January 1991 through September 1999. The audit identified 10 findings and provided 35 recommendations.

The audit report addressed one finding related to procurement. The Authority did not

1. Follow its procurement policies or HUD's regulations.
2. Solicit competitive bids.
3. Have written contracts to support purchase orders exceeding \$1,000.
4. Have contracts for services performed by consultants.

We concluded that the Authority did not have assurance that it received the best prices.

We made two procurement recommendations. We recommended that the director of the Troubled Agency Recovery Center ensure that the Authority developed and implemented procedures that ensure the Authority's written procurement policies and HUD's procurement regulations were strictly enforced. The second recommendation required the Authority to clarify its procurement policies and develop and implement procedures to ensure that invoices were not paid unless a written, properly executed contract was in place according to the Authority's directives and HUD's requirements.

HUD resolved and closed all 35 recommendations.

## APPENDIXES

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### Appendix A

#### SCHEDULE OF QUESTIONED COSTS AND FUNDS PUT TO BETTER USE

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Recommendation number	Ineligible 1/	Funds put to better use 2/
1A	\$5,419	
1B		\$970,000

- 1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations.
- 2/ “Funds to be put to better use” are quantifiable savings that are anticipated to occur if an OIG recommendation is implemented, resulting in reduced expenditures at a later time for the activities in question. This includes costs not incurred, deobligation of funds, withdrawal of interest, reductions in outlays, avoidance of unnecessary expenditures, loans and guarantees not made, and other savings.

## Appendix B

### AUDITEE COMMENTS AND OIG'S EVALUATION

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#### Ref to OIG Evaluation

#### Auditee Comments



Omaha  
Housing  
Authority

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U.S. Department of Housing and Urban Development  
Office of Inspector General  
Region 8 Office of Audit  
Attn: Ronald J. Hosking, Regional Inspector General for Audit  
UMB Plaza Building  
1670 Broadway, 24<sup>th</sup> Floor  
Denver, CO. 80202-4801

Dear Mr. Hosking,

The Omaha Housing Authority is in receipt of the discussion draft of the inspector general's audit of the Omaha Housing Authority's procurement activities dated April 4<sup>th</sup>, 2006. In addition, the authority and the inspector general's office have conducted an exit interview of the audit on April 12<sup>th</sup>, 2006. The objectives of the audit were to determine whether the authority followed procurement requirements of HUD and the Authority.

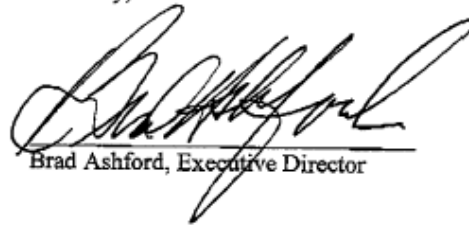
The audit findings determined that the authority did not follow HUD's or its own requirements in the process of procuring necessary goods and services to operate the authority. The authority does not take issue with the findings for the period of time the audit information was compiled. However, the authority would appreciate the opportunity to address the very proactive steps that have been put into place to address these issues. Authority management was aware of shortcomings and inconsistencies in the procurement process even before the inspector general audit was undertaken and in fact had began the process of identifying specific corrective items, processes and procedures to reduce authority cost and comply with procurement guidelines.

By February 1, 2005 the authority and the City of Omaha had established an inter-local agreement through which the authority takes advantage of large volume fuel purchase contracts procured by the city, county and utilities district. In addition, all vehicle maintenance is procured through the city vehicle maintenance facility to achieve cost savings. This method of procuring vehicle maintenance fuel and repair replaces a credit card system that allowed service stations to sell fuel at full service retail price and perform service work without providing estimates or bidding against competitors. This is but one example of the authority recognizing that cost savings can be achieved through inter-local agreements and competitive bidding procedures.

#### Comment 1

Attached is a list of commodities and services that have been advertised for competitive bidding during the past year. This list will continue to grow as the Housing Authority brings all repetitive services and commodities under contract. Also attached is the OHA Credit Card Policy adopted by the Board of Commissioners in 2005. All other stated weaknesses outlined on page seven have been addressed on an ongoing basis.

Sincerely,

A handwritten signature in black ink, appearing to read 'Brad Ashford', is written over a horizontal line.

Brad Ashford, Executive Director

### **OIG Evaluation of Auditee Comments**

**Comment 1** We commend the Authority for taking steps to correct their procurement processes. These steps will provide additional financial benefits to the Authority.